

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2013

Docket No. ACR2013

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-14 OF CHAIRMAN'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 16, 2014. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please reconcile the variance shown in the table below between the amount reported for Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations on page 41 of FY 2013 Form 10-K and the amount recorded in general ledger account 51206 Workers' Compensation Chargeback for fiscal year ended September 30, 2013.

	Sep-13	FY 2013 Form 10-K	Variance
51206 WORKERS' COMPENSATION-CHARGE BACK	\$1,351,027,986		
Claims Paid on Behalf of Postal Service's Workers' Compensation Obligations		<u>\$1,372,000,000</u>	
Total	\$1,351,027,986	\$ 1,372,000,000	(20,972,014)

RESPONSE:

The chargeback amount recorded in 51206 is an expense component that is not reflective of the total claims paid on behalf of the Postal Service that appear in the invoice for the comparable period. There are timing differences and differences in the composition of these two lines, so they are not comparable. For further explanation of the different components of these two figures, please see the Excel spreadsheet (ChIR.3.Q.1.WorkersComp.xls) attached to this response electronically.

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2. Please reconcile the variance shown in the Table below between the amount reported for adjustment to the estimated liability for deferred revenue-prepaid postage on page 21 of FY 2013 Form 10-K and the change in general ledger account 25111.100 Postage in the Hands of Public-Forever Stamps and general ledger account 25111.200 Postage in the Hands of Public-Non-Forever Stamps in September 2013.

	Aug-13	Sep-13	Increase/(Decrease)	FY 2013 Form 10-K	Variance
25111.100 POSTAGE IN HANDS OF PUBLIC-FOREVER STAMPS	\$ (3,479,711,689)	\$ (2,179,498,816)	\$ 1,300,212,873		
25111.200 POSTAGE IN HANDS OF PUBLIC-NON-FOREVER STAMPS	\$ (96,588,982)	\$ (95,465,099)	\$ 1,123,883		
Total			\$ 1,301,336,756	1,316,000,000	(14,663,244)

Please provide a copy of the Journal Vouchers recording the adjustment as revenue for FY 2013.

RESPONSE:

The \$1,316 million amount reported on page 21 of Form 10-K is the one-time cumulative impact on revenue of the change in accounting treatment for PIHOP. This is only one component of the General Ledger changes for Account 25111, Subaccounts 100 and 200 between August and September.

The Journal Vouchers (JVs) associated with the general ledger increase/decrease in liabilities between August and September of 2013 are attached. JV 960.7 relates to Account 25111, Subaccount 200 shows an increase of \$1,123,883 . The sum of the three JVs 961.5, 962.7 and 963.5 relate to the increase of \$1,300,212,873 for Account 25111, Subaccount 100, as shown below.

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JV No.	Account No.	Subaccount	Debit	Credit
961.5	25111	100		70,303,649.48
962.7	25111	100		722,416.70
963.5	25111	100	1,371,238,939.25	

The \$1,301,336,756 total of the general ledger changes represents the change in liabilities between August and September of 2013. It represents numerous factors including monthly, quarterly and strata adjustments as well as the change in accounting treatment of \$1.316 billion. Thus, attempting to evaluate the two figures cited in the question does not yield a valid apples-to-apples comparison.

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3. Please reconcile the variance shown in the table below between the amount reported for Retirement Incentive in USPS-FY13-5 in Tab "Seg 3" on Lines 132, 133 and 134 of the Excel worksheet and on page 30 of FY 2013 Form 10-K.

	Real TB13	FY 2013 Form 10-K	Variance
Lump Sum - Labor Contract (Retirement Incentive) from acct. 51113.104 to Seg. 18, Comp. 1430	\$ (353,010,400)		
Lump Sum - Labor Contract (Retirement Incentive) from acct. 51113.107 to Seg. 18, Comp. 1430	\$ (150,495)		
Total	\$ (353,160,895)	(351,000,000)	(2,160,895)

RESPONSE:

The amount presented in the 10-K of \$351M represents the original estimated accrual for the retirement incentives. The slightly higher actual figure appearing in the Trial Balances is based upon subsequent refinements using updated figures.

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4. The following questions pertain to the quality of service link to terminal dues for inbound letter post (Inbound Single-Piece First-Class Mail International).

(a) For CY 2012, please provide the final monthly and annual quality of service measurement results for the link to terminal dues that were provided to the Postal Service by the International Post Corporation or its contractor.

(b) For CY 2013, please provide the preliminary monthly quality of service measurement results for the link to terminal dues that were provided to the Postal Service by the International Post Corporation or its contractor.

(c) On July 1, 2012, the Postal Service changed its First-Class Mail service standards. Please explain how and to what extent the change in service standards affected the quality of service for inbound letterpost reported in CY 2013 compared to CY 2012.

RESPONSE:

(a) Please see 2012 material, filed under seal, as part of USPS-FY13-NP33, that accompanies this response.

(b) Please see 2013 material, filed under seal, as part of USPS-FY13-NP33, that accompanies this response.

(c) Comparisons of CY 2012 performance with CY13 performance are not appropriate at this time as the CY13 scores are not final and have been impacted by low or no test item volumes from high-volume countries, as reported by the measurement system provider. Please see the note (#) on page 2 of the report provided in response to 4(b).

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5. The following question concerns Inbound International Mail. For FY 2013, please provide the number of cubic feet separately for inbound Air LC/AO,¹ Surface LC/AO, Surface Parcel Post, Air Parcel Post, and Express Mail Service (EMS) from Canada and the rest of the world (separated by Industrialized Countries (ICs) and Developing Countries (DCs), if possible).

¹ LC/AO—(French) *lettres et cartes* and *autres objets*; literally “letters and cards” and “other objects.”

RESPONSE:

Please see ChIR 3 Questions 5,7,8,11.xls, tab Question 5, filed under seal as part of USPS-FY13-NP33, that accompanies this response.

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6. The following question concerns Inbound EMS. Please provide the available EMS Cooperative quarterly report cards for CY 2013 provided to the Postal Service.

RESPONSE:

Please see the EMS material, filed under seal, as part of USPS-FY13-NP33 that accompanies this response.

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7. For Inbound Letterpost at Universal Postal Union (UPU) rates from Target and Transition System Countries, costs exceeded revenues in FY 2013. Refer to USPS-FY13-NP2, Excel file "Reports (Booked).xls", worksheet A-Pages (md), Table A-1. Please explain the causes of the increase in unit attributable cost from FY 2012 to FY 2013.

RESPONSE:

Please see ChIR 3 Questions 5,7,8,11.xls, tab Question 7, filed under seal as part of USPS-FY13-NP33, that accompanies this response.

Total Inbound Letterpost unit attributable costs for domestic processing exhibited a one percent reduction in 2013, however the unit costs for Target Countries decreased and unit costs for Transition System Counties increased. Part of the cost difference might have to do with mail characteristics since weight per piece for Target Countries decreased two percent and for Transition System Countries increased by 15 percent. Unit delivery costs for both UPU categories increased approximately 20 percent, while unit other costs increased on the order of one percent. Unit domestic transportation costs on a per pound basis increased by approximately ten percent for combined inbound Letterpost, coupled with the 15 percent weight per piece increase for Transition System Countries, and these facts comport well with the 25 percent per piece increase experienced. For the Target Countries, the two percent decrease in weight per piece, in conjunction with the same ten percent increase in unit transportation costs, also comports well with the nine percent increase in unit costs.

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8. Inbound Market Dominant Exprés Service Agreement 1, consisting of a Negotiated Service Agreement, is identified as a separate product on the market dominant product list. Please identify where in library reference USPS-FY13-NP2 (e.g., FY 2013 ICRA report) the financial results for this product can be found. If the financial results are not presented in the FY 2013 ICRA or elsewhere in the ACR please provide. If revenues for the Inbound Market Dominant Exprés Service Agreement 1 product do not cover costs, please demonstrate that the negotiated rates result in an improvement in the product's cost coverage compared to the cost coverage based upon UPU default rates.

RESPONSE:

Inbound Market Dominant Exprés Service Agreement 1 was established by Docket No. R2011-6, Order No. 876 (9/26/11) and there was no activity to report until Quarter IV of FY13. As a result of the time span, the financial results for Inbound Market Dominant Exprés Service Agreement 1 were inadvertently reported as part of Inbound Air Letterpost in the FY13 ICRA and not separately identified with the rest of the NSAs.

The separate financial results for Inbound Market Dominant Exprés Service Agreement 1 are shown in ChIR 3 Questions 5,7,8,11.xls, tab Question 8, filed under seal as part of USPS-FY13-NP33, that accompanies this response.

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9. The competitive product list identifies International Business Reply Service (IBRS) Competitive Contracts as an inbound international mail service. The FY 2013 ICRA presents financial results for IBRS Competitive Contracts under the heading "International Negotiated Service Agreements: Outbound International." Refer to USPS-FY13-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," and worksheets A-Pages (md), Table A-1 in each file. Please confirm that the financial results for IBRS Competitive Contracts should be reported under the heading "International Negotiated Service Agreements: Inbound International." If not confirmed, please explain.

RESPONSE:

Confirmed with the following clarification. The discussion concerns a Competitive product, so it is assumed the references are to USPS-FY13-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," and worksheets A-Pages (c), Table A-1 in each file.

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10. The Postal Service states that FY 2013 financial results for Total International Competitive reflect that no mailers elected to participate in the Global Express Guaranteed (GXG) promotion. ACR at 45, n.21. Please discuss the status of the GXG promotion.

RESPONSE:

As there was no participation, the Postal Service decided not to seek a further extension of the GXG promotion beyond August 1, 2013.

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11. In FY 2013, for the first time, costs exceeded revenue for the competitive International Priority Airmail (IPA) product. This product features rates “of general applicability.” The Postal Service states that

[it] continues to consider possible causes for the declines in cost coverage from those recognized in FY 12, but it notes that identifying specific causes with small revenue-reporting products is often difficult on a year-to-year basis.

ACR at 48.

(a) Please discuss the Postal Service’s preliminary conclusions as to the possible causes of the decline in the FY 2013 IPA cost coverage compared to FY 2012.

(b) Please explain why it is difficult to identify specific causes for the decline in cost coverage for IPA, a small revenue-reporting product, on a year-to-year basis. To the extent one of the difficulties is a small sample problem, please provide the number of In-Office Cost System tallies for IPA in FY 2012 and 2013.

(c) For each fiscal year in which the generally applicable rates for IPA were set by the Postal Service pursuant to the pricing flexibility authority granted by the PAEA, please provide

(i) the average annual percentage change in price and the overall average percentage change in price for each fiscal year since the PAEA became effective.

(ii) the average annual percentage change in costs and the overall average percentage change in costs for each fiscal year since the PAEA became effective.

(iii) To the extent the Postal Service implemented any methodological changes that affected the development of costs for IPA, please discuss whether the methodological changes had the effect of increasing or decreasing the IPA costs.

RESPONSE:

(a-b) There were 41 IPA In-Office Cost System tallies in FY12 and 26 in FY13.

The difficulty of identifying IPA as a small product is more than the number of tallies. Non-NSA IPA constitutes about 2 percent of total IPA volume and the costs reported in the ICRA are small residual portions of the entire IPA “parent product” for which costs

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are estimated. NSA costs are calculated, along with drop ship cost savings, and deducted from total IPA costs, i.e., there is no direct observation of the non-NSA IPA costs. There are only total IPA "parent" costs. Therefore, any variances in the estimates of costs for the NSA products will have a magnified effect on the residual costs.

There is also a gross to net weight issue. NSA data are only net weight, whereas RPW provides gross, which is used to cost the flows for the residual products.

Given the small residual amounts of non-NSA IPA, the cost estimates can have high variances.

(c) (i) Please see ChIR 3 Questions 5,7,8,11.xls, tab Question 11 c(i) filed under seal as part of USPS-FY13-NP33, that accompanies this response.

(ii) Please see ChIR 3 Questions 5,7,8,11.xls, tab Question 11 c(ii) filed under seal as part of USPS-FY13-NP33, that accompanies this response.

(iii) There were no methodological changes affecting IPA in FY13.

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12. Please provide the number of P.O. Boxes that were rented at the end of FY 2013 for each POSTPlan candidate office shown in the Excel spreadsheet 'Summary_Updated'.xls filed in Docket No. N2012-2, Library Reference USPS-LR-N2012-2/11, (July 19, 2012).

RESPONSE:

Please see the Excel file (ChIR.3.Q.12.PO.Boxes) attached to this response electronically.

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13. Referring to the data shown in response to CHIR No.1, question 7, on the worksheet 'Suspensions', at the National Level, please provide the number of Post Offices under suspension and the number of Stations/Branches under suspension at the beginning of the Fiscal Year which were subsequently:
- (a) closed during the fiscal Year or;
 - (b) reopened during the Fiscal Year.

RESPONSE:

Please see the Excel file ChIR.3.Q.11.xls attached to this response electronically.

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14. Please explain the difference(s) in the number of offices under suspension shown on USPS-FY-13-33 PostOffices!, worksheet 'Suspensions', and the corresponding figures shown in the response to CHIR No. 1, question 7, on the worksheet 'Suspensions'.

RESPONSE:

The inconsistency reflects recent updates to suspension reporting for Fiscal Year 2013, including both the addition of suspended retail facilities that were not reported properly, and the removal of retail facilities with leasing and other facility issues that were resolved in time to avoid suspension.